HOW TO BUDGET 101

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How to Budget 101: Objectives

- Develop basic skills required to prepare and present a budgeting including:
 - Establishing goals and objectives as a basis for developing the budget
 - □ Developing basic financial policies for budget
 - □ Preparing a budget calendar for completing the process and meeting statutory deadlines
 - □ Projecting revenues, expenditures and fund balances
 - Reviewing budget requests and developing a recommended budget
 - □ Preparing the budget document
 - Monitoring and amending the budget

How to Budget 101: Agenda

- What is a budget
- Goals and objectives
- Budget Policies
- Budget Components
- Budget Preparation
- Budget Presentation
- Monitoring and Amendments to Budget
- Budget Resources



What is a budget?

- A PLAN
 - □Fund Balance
 - Revenues
 - ■Expenditures



What is a budget?

- A PLAN
 - □Flexible
 - □Ability to be modified as circumstances change

What is a budget?

- A TOOL
 - □Goals and objectives
 - □ Communication
 - Accountability
 - □A guide for activities

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Budgeting as a Plan

- Goals and objectives
 - Provide overall direction for the entity and serve as a basis for decision making.
 - Define the preferred future state of the organization
- Goals are developed by
 - Assessing current and expected future conditions
 - Identifying opportunities and challenges facing the organization
 - Soliciting input and ownership by departments, elected officials and the public

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Broad Goal Examples:

- Provide a safer community
- Improve student performance
- Enhance economic development
- Provide efficient transportation system
- Improve community health

EXERCISE:

Write down a broad goal for your entity.

Example

- Goal Provide a safer community
- Strategy Reduce crime and disorder by focusing police patrols on areas with high numbers of complaints
- Objective Reduce the crime rate by 25% from 1,000 to 750 reported crimes.

EXERCISE:

For the broad goal that you wrote down, identify the strategy and objectives.

■Communicate:

- Priorities
- ☐Goals of the organization
- ■Use of taxpayer dollars

■To:

- □ Public
- □Governing body
- ■Staff

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Budget Policies

- A government should develop a set of budget and financial policies. They should:
 - □ Be an integral part of the development of the budget
 - □ Support short and long term goals
 - □ Ensure the fiscal stability of the entity
 - Be clearly communicated to those involved in the budget process
 - □ Receive support or ratification from the governing body
 - Should be simple and used on a daily basis

EXERCISE:

- What budget policies does your entity have?
- Why are they important?

Budget Policies

- Fund Balance: provide cash flow, protect against reducing service levels or raising taxes or fees because of temporary revenue shortfalls or unanticipated expenditures
- Appropriation Level: establish the level of the spending authorization for budget control that is necessary and workable for your entity, for example by department, personnel vs operations vs capital (DOLA is bottom line only)
- Debt issuance: determine levels and capacity for debt management
- Revenues: use of one-time revenues and use of unpredictable revenues, revenue diversification

Budget Policies

- <u>Fees and Charges</u>: identify the cost of a program and the portion of that cost to be recovered through fees and charges, to provide a better understanding of the cost of services and to consider the appropriateness of the fees and charges
- Operating expenditures: establish a pay plan, benefits, travel, budgetary increase/decrease allowed or required, use of contingency funds
- Balancing the operating budget: determine how you will prioritize funding requests
- Capital expenses: target long-term capital projects, capital equipment and fleet replacement plans, and funding methods



Fund Balance Policy Example

- Your governing body believes that your general fund balance is too high
 - ■What are the critical elements for determining the right level of reserve?
 - ■What policy would you recommend?
 - ■Who would you involve?

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Appropriation Level Policy Example

- A new member of your governing body has made campaign promises that he will institute line item budget control
 - □ What expenditures does the governing body really need to control?
 - What level of control is really necessary for departments?
 - □ Has there been historical mis-use of funds?
 - What policy would you recommend?
 - □ How will you convince your governing body?

Fees and Charges Policy Example

- Your citizens see an opportunity to fund a teen center by raising fees:
 - □ What components should be considered in determining the appropriateness of this proposal?
 - Should the fees first cover departmental costs?
 - Equity/costs/benefits to the ones paying the fees
 - Usage of programs: department vs teen center
 - □ What policy would you recommend?
 - Who would you involve?

EXERCISE:

Write down 1-2 budget policies that you'd like your entity to formalize.

Budget Preparation

- Budget Calendar timeline for process, including statutory deadlines
- Fund Balance estimates
- Revenue and Expenditure projections
- Identification of issues and challenges
- Budget schedule and plan

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Budget Preparation

The budget preparation process has two significant categories. These categories can be approached separately or together when preparing the budget.

- Operating Budget: consists of ongoing expenses associated with the day-to-day delivery of programs and services. The operating budget should be funded primarily by stable, reliable revenue sources
- Capital Projects Budget(s): consists of large projects and/or purchases that have a long term life and are not consumed when used

Operating budget:

- Personnel
- Ongoing expenses
- □Fixed costs
- Ongoing funding sources

■Capital:

- □Long-term
- □Large projects
- □ Equipment
- □Related funding/debt

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Budget Calendar

- Ensures smooth budget process
- Defines when budget tasks need to be completed (statutory/legal deadlines, internal process)
- Identifies responsible persons
- Distribute early to all involved
- Post public input points on website and/or in local media.

Budget Calendar Examples

see hand outs

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Revenue Projections

- Estimate revenues to know how much you can spend
- Project revenue sources using past history and current trends, focus on significant revenue sources
- Incorporate revenue restrictions and limitations such as Tabor, sales tax restrictions, lottery funds
- Identify revenue changes, including:
 - economic impacts
 - new revenue sources
 - elimination of existing sources
 - □ changes in revenue streams

Revenue Analysis

- Revenues should also be identified as on-going or one-time revenues, and stable versus unstable revenues
 - On-going and stable revenues are best suited for funding of on-going operational expenses
 - Examples: property tax and utility fees and charges.
 - One-time or unstable revenue sources are better suited for one-time expenditures or special projects which can more easily be adjusted if the revenue does not materialize as projected
 - Examples: mineral lease taxes and capital grant revenues

Revenue Projection Example 1 (county)

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REVENUE ANA	LYSIS FOR TH	IE BUDGET Y	EAR 2009						
	'06 & '	07 total two y	ears	2008	EST 2008		CURRENT	EST	09/17/08
	REC'D	TOTAL		REC'D	BASED ON	(adjusted)	EST	BASED	EST
NAME	thru August	YEAR	% REC'D	thru August	2yr %-to-dt	BUDGETED	2008	ON	2009
GENERAL FUNI	D								
PROP TAX	9,222,531	9,432,010	97.78%	5,370,712	5,492,701	5,547,308	5,422,066	97% of levy	5,839,759
SALESTAX	985,109	2,030,298	48.52%	489,674	1,009,212	1,093,861	1,045,494	est based or	1,149,724
ASSESSORS FEE	8,309	9,606	86.50%	2,435	2,815	2,000	3,000		3,000
CLERK & REC FE	616,425	1,021,620	60.34%	283,157	469,285	580,000	460,000	based 2 yea	450,000
TREASFEES	333,016	538,989	61.79%	186,708	302,188	290,000	300,000	" "	290,000
PUB TRUST FEE	101,304	207,603	48.80%	46,619	95,537	100,000	95,000	" "	97,000
SHERIFFS FEES	73,488	123,453	59.53%	38,832	65,234	55,000	65,000	" "	65,000
V							V		V
V							V		V
BLDGPERMITS	1,195,930	1,673,471	71.46%	352,535	493,304	825,000	500,000		500,000
CONTRACTOR L	94,092	137,223	68.57%	45,420	66,240	70,000	65,000		65,000
LIQUOR LIC FEES	2,800	3,963	70.65%	774	1,095	2,500	2,000		2,000
HEALTH LICENS	19,667	25,308	77.71%	15,640	20,126	20,000	20,000		20,000
V							V		V
V							V		V
MISC REFUNDS	7,207	6,879	104.77%	1,780	1,699	5,000	2,000		5,000
MISC REV	56,341	77,886	72.34%	25,357	35,054	30,000	35,000		30,000
					BUDG	BUDGET (adj'd 6/30)			
TOTALS	18,646,335	24,796,723	75.20%	9,812,015	13,048,453	13,285,743	12,580,228		12,912,019
							-705,515	rev est > bud	get

Revenue Projection Ex 2 (special district)

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Summary 5 Year Plan		2009		2010		2011		2012	2013
OPERATING SOURCES OF FUNDS			5%	2.50%		2.50%		2.50%	2.50%
Operating revenues			2.	5% Consumpti	on ar	nd 2.5% Base I	Fee		
Consumption Charge	\$	4,462,500	\$	4,574,062	\$	4,688,414	\$	4,805,624	\$ 4,925,765
Base Fee	\$	2,174,595	\$	2,243,683	\$	2,319,394	\$	2,354,176	\$ 2,439,984
Tap Installation Revenue	\$	25,000	\$	45,000	\$	52,500	\$	56,250	\$ 63,750
Miscellaneous fees (Water Rental, Const Water, Customer Misc Fees)	\$	192,500	\$	194,425	\$	196,369	\$	198,333	\$ 200,316
Total Operating Revenue	\$	6,854,595	\$	7,057,171	\$	7,256,677	\$	7,414,383	\$ 7,629,815
NONOPERATING SOURCES OF FUNDS									
Tap Sales									
Plant Investment Fee - \$9000	\$	540,000	\$	540,000	\$	630,000	\$	675,000	\$ 765,000
Cash in Lieu - \$12,600	\$	126,000	\$	126,000	\$	189,000	\$	189,000	\$ 189,000
Interest Income	_\$_	150,000	\$	153,000	\$	156,060	\$	159,181	\$ 162,365
Total Non Operating Revenue	\$	816,000	\$	819,000	\$	975,060	\$	1,023,181	\$ 1,116,365

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EXERCISE: Revenue Projections:

Answer the following questions for property tax, sales tax and sewer charges:

- How stable is the revenue source?
- What factors could impact the revenue source in the future?
- How would you make a revenue projection for this source, for the next year? two years?
- What information would you need and where could you get it?

EXERCISE (cont):

What are your challenges in estimating revenue and how will you address them?

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Expenditure Projections

- Estimate personnel and other operating costs for next year
- Identify increases or decreases to costs based on the goals, strategy, and objectives for the organization
- Identify one-time and other costs that can be removed from next budget

Estimating Personnel Expenses

- Usually the highest cost in service industries
- Review Pay Plan and any proposed adjustments for
 - performance increases,
 - market adjustments,
 - new positions,
 - reclassification of existing positions
- Cost of benefits and any proposed changes
- Personnel decisions have long-term cost impacts
- Compliance with any budget policy on personnel expenses

Estimating Personnel Expenses

- Identify and value associated costs:
 - □ Vehicle
 - □ Space
 - □ Training
 - □ Equipment

Personnel Cost Projections

Salary Projection:						
Job Classification	Grade	Step	C	2008 urrent Costs	200	09 Projected Costs
Dog Catcher I	200	С	\$	35,000	\$	37,500
Truck Driver	250	f	\$	45,000	\$	48,600
Accountant	300	w	\$	50,000	\$	51,500
Admin Asst (2009 request)	150	е			\$	25,000
Total Salaries			\$	130,000	\$	162,600
Benefits Projection:						
Total Health Insurance (enti	ty cost)		\$	27,000	\$	38,430
FICA & Medicare (7.65% of Salary				9,945	\$	12,439
Retirement Plan (10% of Sa		\$	13,000	\$	16,260	
Total Benefits	,		\$	49,945	\$	67,129
Benefits as a % of Salarie			38%		41%	
Total Personnel:			\$	179,945	\$	229,729
Total Personnel.			Ą	179,945	Ą	229,729



Operating Expense Projections

- Other costs includes supplies, purchased services and fixed charges. Forecasts of operating expenses can be based on:
 - □ historical trends
 - □ known changes in commodity prices
 - planned changes based on goals and objectives
 - □ Need vs wants

Operating Expense Projections

\$ 5,000,000			
\$ 25,000			
\$ (9,000)			
\$ 50,000			
\$ 66,000			
\$ 67,000			
\$ 26,250			
\$ 55,000			
\$ 5,000			
\$ 45,000			
\$ 300,000			
\$ 45,000			
\$ 543,250			
\$ 5,609,250			
\$ \$ \$ \$ \$ \$ \$ \$ \$	\$ 25,000 \$ (9,000) \$ 50,000 \$ 66,000 \$ 26,250 \$ 55,000 \$ 45,000 \$ 300,000 \$ 45,000 \$ 543,250	\$ 25,000 \$ (9,000) \$ 50,000 \$ 66,000 \$ 66,000 \$ 26,250 \$ 55,000 \$ 5,000 \$ 45,000 \$ 300,000 \$ 45,000 \$ 45,000	\$ 25,000 \$ (9,000) \$ 50,000 \$ 66,000 \$ 66,000 \$ 26,250 \$ 55,000 \$ 5,000 \$ 45,000 \$ 300,000 \$ 45,000 \$ 45,000

Projecting Fund Balances

- ■Fund balances are estimated for the current year-end (which will be the beginning for the next year) and ending fund balance for the next budget period. Estimates are based on:
 - The fund balance at the beginning of the year
 - □ Projected revenues
 - Projected expenditures
 - □ The fund balance projections should be consistent with the budget policy on fund balance

Fund Balance Projection Example

Estimated Fu	nd Balances - 12/31/08			
	12/31/07 actual Fund Balance	1,497,838		
	+ Actual Revenues thru 6/30/08	7,236,693		
	- Actual Expend thru 6/30/08	6,250,678		
	Balance @ 6/30/08	2,483,853		
	+ Estimated Receipts thru Y/E	5,459,000		
	- Remaining expense per Budget Contro	6,971,488		
	Adjustments to Budget Control Expense Amo	unts:		
estir	nated unused benefits	50,000		
Est	addt'l personnel costs	(25,000)		
prisoner hous	sing est not to be used	200,000		
Par	ks purchase not made	35,000		
(inc/(dec) to fund balances)	442,500		
	+ Est % of curr bdgt not to be spent (1%)	127,797		
	12/31/08 Estimated Fund Balance	1,541,662		

Making the budget balance:

Sources: Beginning fund balance + estimated revenues

 Uses: Budgeted expenditures + targeted ending fund balance

Capital Expenditures

- Can be part of the operating budget in each fund, a separate segment of each Fund, or in a capital projects fund:
 - Capital policy should define what should be included in the capital expenditure category (\$ threshold and life expectancy)
 - □ A capital equipment replacement plan can be developed for scheduled replacement or acquisition of new equipment over a period of years:
 - Helpful in predicting future equipment needs
 - Allocating resources
 - Planning for debt issuance to fund capital equipment purchases.

Capital Expenditures

- The capital projects budget should include
 - the estimated cost of the project
 - ☐ funding sources
 - □ a description of the project
 - □ the time frame of the project
 - □ the impacts of the project on operating budgets
- Governmental accounting treats capital expenditures from governmental funds as current year expenses, and should be budgeted as such

Capital Plan

Capital Equipm	ent Repl	acement F	Plan:										
							Planned Replacement						
	Useful				Date of		Purchase						
	Life	Purchase		Price	2008	2009	2010	2011	2012	2013			
Police car #54	3 years	1/2/2005		25,000	28,750			28,751					
Police car #56	3 years	1/2/2006		26,500		30,475			35,046				
Police truck #66	4 years	6/4/2007		35,250				42,300					
Fire truck 1	10,000 hr	2/2/2001	650 hrs	450,000									
TOTAL VEHICL	ES			536,750	28,750	30,475	0	71,051	35,046	0			
Phone system	5 years	3/4/2004		16,400		17,500							
Photocopier	3 years	1/3/2007		12,500			13,750						
TOTAL OTHER	EQUIPME	ENT		28,900	0	17,500	13,750 0 0 0						
TOTAL CAPITA	L EQUIPI	MENT		565,650	28,750	47,975	13,750	71,051	35,046	0			
Capital Buildin	g Plan:												
City Hall upgrade HVAC system (spread over 2 years)				2 years)		75,000	75,000						
Road Barn (currently renting)			4,000,000	1,000,000	695,000	695,000	695,000	695,000	695,000				
\$1 mill down inc		•	L/P @ :	5%									
TOTAL CAPITA	L BUILDI	NG PLAN		4,000,000	1,000,000	770,000	770,000	695,000	695,000	695,000			

Budget Document Components

- Budget message including economic outlook
- Budget Overview
- Goals and Objectives
- Financial and Budget Policies
- Community Profile and organizational chart
- Description of the budget process
- Capital Improvement Plan
- Budget detail

Telling the Story

The budget should include:

- The economic outlook
- The organization's strategic goals and strategies for achieving the goals
- The challenges and opportunities, and accomplishments from prior years' plans
- Financial policies
- The significant revenue and expenditure changes

Budget Detail

- Revenue and expense projections by Fund, Department, Program (DOLA requirement)
- Actual revenue and expenses by Fund,
 Department, program from the previous budget period (DOLA requirement)
- Beginning fund balances available and projected ending fund balances (DOLA requirement)
- Descriptions of the purpose and roles of the departments, programs and/or functions (individual mission statements, specific goals and objectives and past accomplishments)

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Other Considerations:

- Some other considerations in the preparation of the budget are:
 - □ Individual local government property tax situations
 - ☐ State limitations such as TABOR.
- The effects of these vary greatly from entity to entity
- They are addressed generally during the DOLA portion of this presentation, and will be addressed in more detail in our Budget 201 class
- Contact your DOLA rep or other resources from the last page of these slides for further assistance and information specific to your entity

Monitoring and Amendments to Budget

- ■Compare actual revenues and expenses against budgeted numbers to determine if there are areas of concern that need to be addressed through amendments to the budget, adjustments to spending patterns or revenue collections
- ■Provide financial reports comparing budget to actual numbers to those with budget oversight responsibilities (department heads, governing bodies, managers, etc.) to provide accountability on the use of taxpayer funds.

Monitoring and Amendments to Budget

- ■For the budget to be a successful tool used to achieve the goals and objectives of the organization it must also be monitored to:
 - Measure, analyze or evaluate outcomes or progress made towards achieving the goals and objectives established at the organization and departmental levels
 - ☐ This process is much easier if identified goals and objectives are tied in directly with the budget document

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Monitoring and Amendments to Budget

- ■It may be necessary to amend the budget for:
 - □Unanticipated expenses
 - □ Revenue shortfalls
 - □ Emergency situations
 - □One-time opportunities that may arise
- ■Budget amendments should be carefully reviewed to determine if they are critical to achieving the goals and objectives of the organization
- ■Watch budget amendment requests that focus on single issues or projects out of context with the priorities and needs of the organization as a whole

EXERCISE:

What are your policies and procedures for amending the budget?

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Budget Resources

- US!
- Colorado Financial Management Manual
 - http://www.leg.state.co.us/osa/coauditor1.nsf/UID/0E8C123D05928FB687256E9 000607525/\$file/2003+FMM+with+NO+appForExempt.pdf?OpenElement
- □ GFOA Budget Practices
 - http://www.gfoa.org/services/nacslb/
- □ GFOA Budget Award Winners budget documents
 - http://www.gfoa.org/documents/budgetWinners_2004.doc
- CGFOA members
 - http://www.cgfoa.org
- CML
 - http://www.cml.org/links/members.html